ATLANTIC PROVINCES ECONOMIC COUNCIL

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# Report Card

*December 2008*

## Major Investment Projects Key to Sustaining Atlantic Construction Sector

Atlantic Canada's construction sector has grown substantially since 2002 helped by rising new home construction, a surge in renovations and, since 2005, increased non-residential investment. Atlantic employment in construction has reached record levels, exceeding a projected monthly average of 77,000 this year. This represents an increase of 20,000 people since 2002, accounting for more than one-quarter of total job growth in the Atlantic region. However, only Newfoundland and Labrador has exceeded the estimated 43% national increase in construction employment between 2002 and 2008.

Atlantic construction activity may have peaked, at least for now. Housing starts in the Atlantic region in 2009 are currently forecast to fall by 13% next year, to their lowest level since 2001. The economic downturn is causing companies to cut back on investment spending with the credit crisis delaying some major investment projects. But several existing projects continue to ramp up and governments are looking to increase infrastructure spending.

Looking to 2011 and beyond, there are a number of large proposed investment projects that are still being developed including a second refinery in Saint John and the Hebron oil field and Lower Churchill hydroelectricity project in Newfoundland and Labrador. Assuming the current economic and credit crisis does not undermine their viability, these projects could provide a substantial boost to the region's construction sector over the next decade, depending upon the actual number and timing of these multi-billion dollar projects.

### Non-Residential Investment

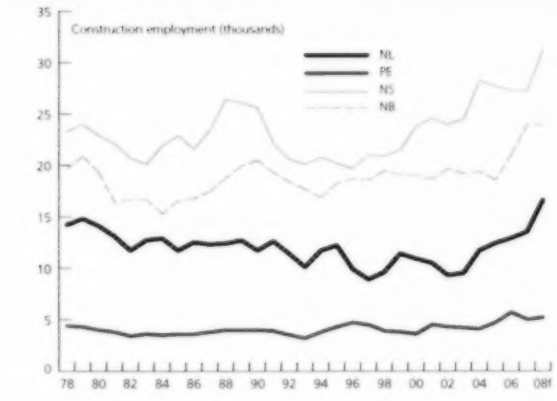
Rising construction costs have been a major challenge over the last few years. Substantial jumps in commodity prices pushed up the cost of diesel fuel and materials such as steel and asphalt while tight labour markets contributed to higher labour costs. Wage pressures should ease temporarily with the economic slowdown and the cost of some construction materials is expected to abate following the sharp reversal in commodity prices since the spring.

The biggest challenge right now is project financing. The global credit crunch has led to delays in some of the region's biggest potential investment projects. For example, a $5 billion petrochemical plant in Nova Scotia and a $2 billion refinery expansion in Newfoundland and Labrador have been postponed until credit markets are more supportive.

Despite these pressures, APEC estimates that major project spending will rise in Newfoundland and Labrador in 2009 due to the ongoing $3.5 billion White Rose oil field expansion and the start of work on the $2.2 billion Vale Inco nickel processing facility. Higher spending related to offshore energy will help support spending in Nova Scotia but private sector spending on major projects in New Brunswick and Prince Edward Island is expected to soften as work on some existing projects concludes.

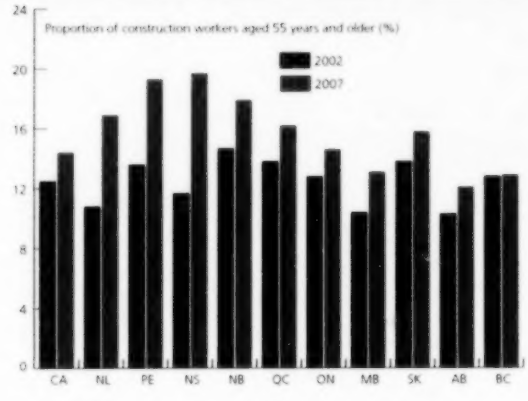
Governments are looking to boost infrastructure spending to provide an economic stimulus in the current downturn, with higher spending on roads, education and health care. For example, New Brunswick is planning to hike capital spending by 38% to a record $661 million in 2009/10. Prince Edward Island's new five-year capital plan projects an increase in spending from less than $70 million in 2007/08 to $133 million by 2010/11 but falling back to $62 million by 2013/14. The upcoming federal budget is also expected to speed up support for provincial infrastructure projects.

**Atlantic Construction Employment Reaches Record High**



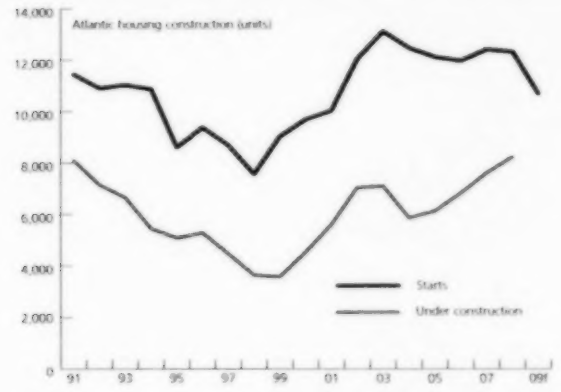

Source: Statistics Canada, APEC

**Atlantic Construction Workforce Aging Rapidly**



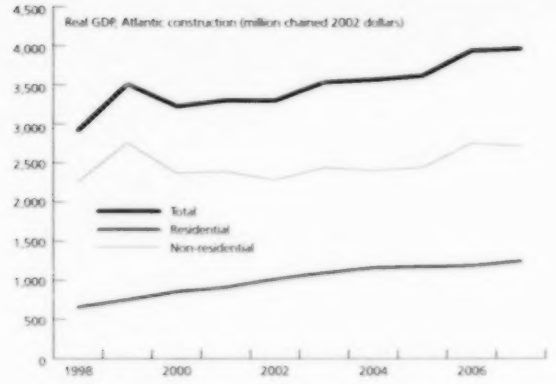

Source: Statistics Canada

**Housing Construction Expected to Decline**




Source: Statistics Canada, Canada Mortgage and Housing Corporation, APEC

**Non-Residential Sector Key to Future Growth**




Source: Statistics Canada

## Housing Market Softens

Housing starts in the Atlantic region have been at historically high levels for several years. A growing preference for condominiums and declining affordability for detached homes has boosted multiple-unit construction, offsetting waning single-unit construction. With the overall number of new starts remaining above 12,000 units since 2002, the total number of units under construction has increased steadily over the last four years. Multiple-unit construction has fallen this year as developers, particularly in Halifax, scaled back plans amid cost, labour and financing pressures. A weakening job market and tighter lending conditions will further moderate housing demand. The Canada Mortgage and Housing Corporation (CMHC) currently estimates that Atlantic starts will fall to about 10,700 in 2009, with declines in all four provinces.

## Availability of Labour

Increased construction activity, combined with an aging workforce and substantial outmigration to Alberta, has already created labour force challenges in Atlantic Canada and there are concerns about the region's future labour force capacity. Almost 19% of Atlantic construction workers are 55 years and older, compared with 14% nationally; this will create an increasing number of retirements in the coming years. One study estimates that the Atlantic provinces will need to replace over 13,600 retiring construction workers between 2007 and 2016.*

The Atlantic construction industry has seen some recent success in drawing young people into the industry, increasing its share of 15-24 year-old Atlantic Canadians employed in construction from 3.3% at the end of the 1990s to an average of 4.7% in the last three years. But, according to Statistics Canada data, enrollments in the region's construction trade apprenticeship programs declined between 2003 and 2006. New Brunswick is investing more than $100 million in its community colleges, including a $44 million expansion of its Saint John campus to increase the availability of skilled trades people.

Developers are lengthening their construction cycles to cope with labour shortages. Irving Oil, for example, recently announced that it will build its proposed $8 billion second refinery over eight years rather than four, to better manage the labour requirements for the project. Temporary foreign workers have been increasingly used in Alberta's construction boom and may provide a source of workers for some large Atlantic projects. If oil prices remain well below US$80/barrel for an extended period, some Atlantic Canadians may be willing to come back as oil sands projects are cancelled or postponed. Indeed, the net flow of Atlantic Canadians moving to Alberta has already slowed from more than 11,500 annually during 2005-2007 to an estimated 1,700 in the 12 months to July 2008.

## Conclusion

After a sustained period of expansion, overall construction activity, at least in the three Maritime provinces, is likely to weaken next year led by declining residential activity. The economic slowdown, both in the Atlantic region and Alberta, will temporarily ease the overall labour pressures facing the industry. But with several proposed multi-billion dollar investment projects currently scheduled to start in the region over the next few years, managing the anticipated labour requirements of these mega projects remains an urgent and daunting challenge.

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* Construction Sector Council (2008). Construction Looking Forward, 2008-2016, Atlantic Canada.

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